

**MAFISI TEA ESTATES LIMITED**

**FINANCIAL STATEMENTS**

**For the year ended**

**31 March 2017**

**MAFISI TEA ESTATES LIMITED**

**FINANCIAL STATEMENTS**

For the year ended 31 March 2017

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**MAFISI TEA ESTATES LIMITED**

**DIRECTORS' REPORT**

For the year ended 31 March 2017

The Directors have pleasure in submitting the report together with the audited annual financial statements for the year ended 31 March 2017.

**1. Nature of the Business**

The company is a subsidiary of Group Developments Limited, a company incorporated in Malawi. The main business of the company is letting out its tea and macadamia plantations.

**2. Incorporation and Registered Office**

Mafisi Tea Estates Limited is a company incorporated in Malawi under the Companies Act, 2013 of Malawi and its registered office is at Naming'omba Tea Estate, P.O. Box 2, Thyolo, Malawi.

**3. Financial performance**

The results and state of affairs of the company are set out in the accompanying statements of financial position, profit or loss and other comprehensive income, changes in equity and cash flows and the notes to the annual financial statements.

**5. Directors and secretary of the company:**

The Directors and secretary of Mafisi Tea Estates Limited who served during the year:-

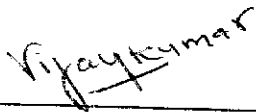
Name	Position	Duration	Nationality
Mr. Vijay Kumar	Managing Director	whole year	Indian
Mr. Amos Suluma	Director	whole year	Malawian
Mr. Arthur Alick Msowoya	Director	whole year	Malawian
Mr. William Chibwe	Director	whole year	Malawian
Mr. Remmie Ng'omba	Director	whole year	Malawian
Mr. E. Phakamea	Secretary	up to 31 December 2016	Malawian

**6. Legal advisors**

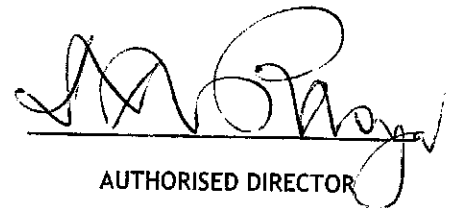
Wilson and Morgan  
P O Box 527  
Blantyre

**7. Auditors**

Messrs KPMG, Chartered Accountants (Malawi) have expressed their willingness to continue in office as auditors in respect of the Company's 31 March 2018 annual financial statements and a resolution proposing their appointment will be tabled at the forthcoming Annual General Meeting.



AUTHORISED DIRECTOR



AUTHORISED DIRECTOR

Date: 25 May 2017

**MAFISI TEA ESTATES LIMITED**

**DIRECTORS' RESPONSIBILITY STATEMENT**  
For the year ended 31 March 2017

The directors are responsible for the preparation and fair presentation of the annual financial statements of Mafisi Tea Estates Limited, comprising the statement of financial position at 31 March 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi.

The Act also requires directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the annual financial statements comply with the Companies Act, 2013 of Malawi.

In preparing the annual financial statements, the directors accept responsibility for the following:

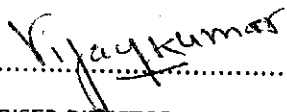
- maintenance of proper accounting records;
- selection of suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- compliance with applicable accounting standards, when preparing annual financial statements, subject to any material departures being disclosed and explained in the annual financial statements; and
- preparation of annual financial statements on a going concern bases unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for such internal control as the directors determine as necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management

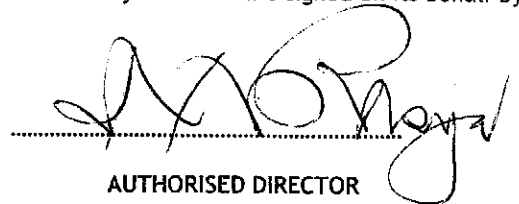
The directors have made an assessment of the Company's ability to remain a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The directors are of the opinion that the annual financial statements give a true and fair view of the state of the financial affairs of the company and of their operating results, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

The annual financial statements were approved by the board of directors on ~~25~~<sup>25</sup> May 2017 and are signed on its behalf by:



.....  
AUTHORISED DIRECTOR



.....  
AUTHORISED DIRECTOR

Date ~~25~~<sup>25</sup> May 2017



KPMG  
Chartered Accountants and Business Advisors  
MASM House, Lower Sciator Road  
P.O. Box 508,  
Blantyre, Malawi

Telephone: (265) 01 820 744/ 01 820 391  
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Website: [www.kpmg.com/mw](http://www.kpmg.com/mw)

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MAFISI TEA ESTATES LIMITED

### *Opinion*

We have audited the financial statements of Mafisi Tea Estates Limited (the Company) set out on pages 5 to 19, which comprise the statements of financial position as at 31 March 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Mafisi Tea Estates Limited as at 31 March 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information*

The directors are responsible for the other information. The other information comprises the Directors' Report and the Directors' Responsibilities Statement but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of directors for the financial statements*

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by Companies Act, 2013 of Malawi and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**MAFISI TEA ESTATES LIMITED**


**INDEPENDENT AUDITOR'S REPORT**  
For the year ended 31 March 2017

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

  
KPMG

  
**Lanion M. Gama**  
Chartered Accountant (Malawi)  
Partner

Blantyre, Malawi

 25 May 2017

MAFISI TEA ESTATES LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

In thousands of Malawi Kwacha

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	885,130	823,674
Biological assets	9	<u>2,228,152</u>	<u>1,071,706</u>
		<u>3,113,282</u>	<u>1,895,380</u>
<b>Current assets</b>			
Amount due from related parties	10	<u>164,646</u>	<u>166,361</u>
<b>Total assets</b>		<u>3,277,928</u>	<u>2,061,741</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	1,500	1,500
Capital reserve	12.1	20,933	20,933
Property revaluation reserve	12.2	671,249	617,446
Biological assets revaluation reserve	12.3	1,545,344	735,832
Retained earnings		<u>97,972</u>	<u>114,238</u>
		<u>2,336,998</u>	<u>1,489,949</u>
<b>Non-current liabilities</b>			
Deferred tax liability	15.1	<u>938,577</u>	<u>568,584</u>
<b>Current liabilities</b>			
Related parties	10	-	1,670
Provisions	11	1,748	-
Income tax payable	15.2	<u>605</u>	<u>1,537</u>
		<u>2,353</u>	<u>3,207</u>
<b>Total liabilities</b>		<u>940,930</u>	<u>571,791</u>
<b>Total equity and liabilities</b>		<u>3,277,928</u>	<u>2,061,740</u>

These annual financial statements were approved by the Company's Board of Directors on <sup>25</sup> May 2017 and were signed on its behalf by:

  
 \_\_\_\_\_  
 AUTHORISED DIRECTOR

  
 \_\_\_\_\_  
 AUTHORISED DIRECTOR

MAFISI TEA ESTATES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

In thousands of Malawi Kwacha

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Estate rent	13	1,502	1,502
Fair value adjustment of biological assets	9	1,156,446	441,581
Administration charges	14	<u>(17,768)</u>	-
Profit before income tax expense		1,140,180	443,083
Income tax charge	15.1	<u>(346,934)</u>	<u>(158,829)</u>
Profit after income tax expense		793,246	284,254
<i>Other comprehensive income:</i>			
Revaluation surplus on revaluation of property and equipment		76,862	707,623
Deferred tax thereon		<u>(23,059)</u>	<u>(212,287)</u>
<b>Total comprehensive income for the year</b>		<b><u>847,049</u></b>	<b><u>779,590</u></b>



MAFISI TEA ESTATES LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

In thousands of Malawi Kwacha

	Share capital	Capitalisation reserve	Revaluation reserve	Non Distributable earnings	Distributable retained earnings	Total
<b>2017</b>						
Balance as at 1 April 2016	1,500	20,933	617,446	735,832	114,238	1,489,949
Fair value gain	-	-	-	1,156,446	(1,156,446)	-
Deferred tax thereon	-	-	-	(346,934)	346,934	-
<b>Total comprehensive income</b>						
Revaluation surplus	-	-	76,862	-	-	76,862
Deferred tax on revaluation	-	-	(23,059)	-	-	(23,059)
Profit for the year	-	-	-	-	793,246	793,246
<b>Total comprehensive income</b>			<b>53,803</b>	<b>809,512</b>	<b>(16,266)</b>	<b>847,049</b>
<b>Balance at 31 March 2017</b>	<b>1,500</b>	<b>20,933</b>	<b>671,249</b>	<b>1,545,344</b>	<b>97,972</b>	<b>2,336,998</b>
<b>2016</b>						
Balance as at 1 April 2015	1,500	20,933	122,110	426,725	139,091	710,359
Fair value gain	-	-	-	441,581	(441,581)	-
Deferred tax thereon	-	-	-	(132,474)	132,474	-
Profit for the year	-	-	-	-	284,254	284,254
Revaluation surplus	-	-	707,623	-	-	707,623
Deferred tax on revaluation	-	-	(212,287)	-	-	(212,287)
<b>Total comprehensive income</b>			<b>495,336</b>	<b>309,107</b>	<b>(24,853)</b>	<b>779,590</b>
<b>Balance at 31 March 2016</b>	<b>1,500</b>	<b>20,933</b>	<b>617,446</b>	<b>735,832</b>	<b>114,238</b>	<b>1,489,949</b>

MAFISI TEA ESTATES LIMITED

STATEMENT OF CASH FLOWS  
For the year ended 31 March 2017  
In thousands of Malawi Kwacha

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Operating activities</b>			
Profit before income tax expense		1,140,180	443,083
<i>Adjusted for:</i>			
Depreciation	8	15,406	-
Fair value adjustment	9	<u>(1,156,446)</u>	<u>(441,581)</u>
<b>Operating (loss)/profit before working capital changes</b>		(860)	1,502
Increase in amounts due from/(to) related parties	10	44	(1,018)
Increase in other payables		<u>1,748</u>	-
<b>Net cash generated from operations</b>		932	484
Income tax paid	15.3	(932)	(484)
<b>Movement in cash for the year</b>			
Cash position at the beginning of the year		-	-
<b>Cash position at the end of the year</b>		<u>-</u>	<u>-</u>

**MAFISI TEA ESTATES LIMITED**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 March 2017

**1. General information**

Mafisi Tea Estates Limited lets out tea and macadamia plantations to Group Development Limited, its holding company and fellow subsidiaries. The company is a limited liability company incorporated in Malawi.

**2. Basis of preparation**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in conformity with the requirements of the Companies Act, 2013 of Malawi.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost convention, except for financial instruments which are measured at fair value through the statement of profit or loss and other comprehensive income.

**(c) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements can be found in the following notes:

- Note 5.4 and 14 - Recognition of deferred tax assets, availability of future taxable profit against which carry forward tax losses can be used.
- Note 7.4 and 8 - Review of useful asset lives and impairment testing.
- Note 7.3 and 9 - Key assumptions underlying in the biological asset model.
- Note 5.6 and 11 - Recognition and measurement of provisions.

**MAFISI TEA ESTATES LIMITED**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 March 2017

**3. Significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**3.1 Foreign currency translation**

**i. Functional and presentation currency**

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates "the functional currency". The financial statements are presented in Malawi Kwacha (K) which is the company's functional and presentation currency.

**ii. Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of profit or loss within finance income or cost.

**3.2 Revenue recognition**

Rental income is determined based on the expected gross margins the company would earn on the lease of land for its tea and macadamia plantations.

**3.3 Property, plant and equipment**

Items of property and equipment are measured at revaluation less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gains or losses on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income in profit or loss.

Increase in the carrying amount arising on revaluation are recognized in other comprehensive income and accumulated in a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. The revaluation reserve is realized on disposal. All other decreases are recognized in profit or loss.

**i. Subsequent costs**

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Company.

Ongoing repairs and maintenance are expensed as incurred.

**ii. Depreciation**

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Freehold buildings and construction	-	2%
Plant and machinery	-	3.5% - 5%
Water schemes	-	3.5% - 10%

Economic lives and residual values are reassessed annually and adjusted where appropriate.

**MAFISI TEA ESTATES LIMITED**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
For the year ended 31 March 2017

**3. Significant accounting policies (continued)**

**3.4 Biological assets**

Tea, timber and macadamia and plantations are measured at fair value. The fair value of plantations is determined based on the present value of expected net cash flows from the plantations determined by discounting the expected net cash flows from the plantations using a determined pre-tax rate of cost of capital.

**3.5 Trade and other receivables**

Trade and other receivables are amounts due from customers for goods sold in the ordinary course of business. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Bad debts are written off during the year in which they are identified. Impairment is calculated as the difference between carrying amount and present values of expected cash flow from customers.

**3.6 Income tax**

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of tax rates and laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

**3.7 Equity**

Ordinary shares, share premium, revaluation and indexation surpluses, non-distributable and distributable retained earnings are classified as equity.

MAFISI TEA ESTATES LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
For the year ended 31 March 2017

4. **New Standards and Interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2017, and have not been applied in preparing these financial statements. Those which may be relevant to the company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

- **IFRS 9 Financial instruments**

This replaces existing guidance in *IAS 39 Financial Instruments: Recognition and measurement*

This includes revised guidance on classification and measurements of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Company is assessing the possible impact on its financial statements resulting from the application of IFRS 9.

- **IFRS 15 Revenue from contracts with customers**

This establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including *IAS 18 Revenue*, *IAS 11 Construction contracts* and *IFRIC 13 Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.

The company is assessing the possible impact on its financial statements resulting from the application of IFRS 15.

- **IFRS 16 Leases:** IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

- **Disclosure Initiative (Amendments to IAS 7):** The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities. The Company does not expect this amendment to have a significant impact on its financial statements.
- **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12):** The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the amendments. So far, the Company does not expect any significant impact.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
For the year ended 31 March 2017

5. **Determination of fair value and key sources of estimation uncertainty**

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods disclosed below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

5.1 **Non-derivative financial liabilities**

Financial value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows based, discounted at the market rate of interest at the reporting date.

5.2 **Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing seller and a willing buyer in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeable, prudently and without compulsion. The market value of items of equipment, fixtures and fittings is based on the quoted market prices for similar items.

5.3 **Biological assets valuation**

Included in the rate used to discount cash flows from macadamia, timber and tea is an agriculture risk factor representing risks associated with climate and environment and prevailing market prices that the company re-assesses each year. The discount rate also includes a time value for money factor.

In accordance with the company's strategic plans, tea plantations and macadamia trees are valued over a period of 40 years whereas timber plantations are valued over a period of 7 years.

The models assume no capacity constraints, sustained global market demand and continued positive market conditions and normal inflation levels.

Green leaf plucked and macadamia nuts in husk harvested have been determined using moving averages.

5.4 **Income tax**

Tax on the profit for the year comprises current tax and deferred tax. Current income tax, current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments of tax payable for previous years. Deferred income tax, deferred tax is provided using the liability method on all temporary differences between the carrying amounts for the financial reporting purposes and the amounts used for taxation purposes.

Deferred taxes assets are accrued only to the extent that it is probable that the related tax liability will crystallise or tax benefit will be realised. Deferred tax asset is recognized only to the extent that there will be future profits to offset the asset.

5.5 **Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using non-current liabilities.

5.6 **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligations has been reliably estimated. Where it cannot be, the obligation is disclosed as a contingent liability.

**MAFISI TEA ESTATES LIMITED**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
For the year ended 31 March 2017

**6. Financial risk management**

Company management, in association with the company's senior management, is responsible for overall financial risk management. Risks are identified and monitored on a continuous basis as part of a programme to minimize the unpredictability of financial markets and to minimize potential adverse effects on the financial performance of the company.

The company's activities generally do not directly expose it to any significant financial risk.

The only significant exposure to credit risk is in respect of any amounts due from a fellow subsidiary company that purchases its agricultural harvests for production of finished goods.

**6.1 Market risk**

**6.2 Foreign exchange risk**

The company does not have foreign currency denominated assets and liabilities, and does not trade in foreign denominated transactions, except for the sale of Greenleaf and macadamia nuts, which are US dollar denominated but paid for in Malawi Kwacha and converted at year end rates. As such it is not directly exposed to foreign exchange risk, except to the extent noted herein.

**6.3 Price risk**

The company does not invest in any securities, and is not exposed to price risk of instruments traded on market such as The Malawi Stock Exchange.

**6.4 Cash flows and fair value Interest rate risk**

Changes in interest rates do not have a significant impact on the company's financial performances as it does not have interest bearing assets and liabilities.

**6.5 Credit risk**

Credit risk arises from receivables from related parties. These are under common control and ownership with the company and a low risk of default is attributable to those loans and receivables.

	<u>2017</u>	<u>2016</u>
Maximum credit risk exposure	<u>164,646</u>	<u>166,361</u>

**6.6 Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet the company's obligations as they fall due. The group centralises treasury management and the company does not have a bank account.

**6.7 Fair value estimation**

The company did not have any loans and receivables nor any other financial assets as at 31 March 2017 for which fair value estimation would be required.

**6.8 Capital risk management**

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and maintain an optional structure.

In order to maintain or adjust the capital structure, the company can adjust the amount of dividend paid to shareholders and use surplus cash resources for internal operations.

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<u>Financial assets</u>			
Due from related party	10	164,646	166,361
<u>Financial liabilities</u>			
Due to related party	10	-	1,670



## MAFISI TEA ESTATES LIMITED

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS For the year ended 31 March 2017

#### 7. Critical accounting estimates and judgements

The company makes estimates and assumptions concerning the future. The resulting estimates will by definition rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

##### 7.1 Estimated impairment of trade receivable

The company tests annually whether receivables have suffered any impairment and makes a provision for bad debts in accordance with the accounting policy stated in note 3.5. This assessment requires judgement.

##### 7.2 Income taxes

The company is subject to income tax in Malawi and provision for income tax payable is made in the financial statements as at each financial year end. Subsequent to the year end a tax return is filed with the revenue authorities. Where the final tax assessed is different from the amounts that were initially provided, such differences will be accounted for as an income tax under/over provision in the statement of comprehensive income for the period when such determination is made.

Deferred tax asset is only recognized to the extent that there will be future taxable profits to offset the tax losses within the allowable period for carrying forward tax losses.

##### 7.3 Biological assets valuation

Included in the rate used to discount the yields for macadamia and tea is a time value for money risk factor representing risks associated with the loss of value of money as a consequence of the passage of time.

In accordance with the company's strategic plans, tea, macadamia and timber plantations are assumed to have productive life of 40 years, 25 years and 7 years respectively.

The models assume no capacity constraints, sustained global market demand and continued positive market conditions.

Standard ratios for conversion of green leaf to made tea and shelling of macadamia to kernels are applied.

These models contain estimates of yields and future proceeds and these assumptions are reconsidered annually.

##### 7.4 Assets' economic lives and residual values

Management uses its judgement, based on its understanding of the business, capital policy and the economic environment in which it operates, to assess the residual value, and the estimated useful life of assets. Changes in residual values, indexation and estimated useful lives result in changes in depreciable and annual depreciation charges for individual assets.

MAFISI TEA ESTATES LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2017

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8. Property plant and equipment <i>See accounting policy note 3.3</i> <u>Cost</u> 2017	<u>Freehold land and development</u>	<u>Freehold buildings and constructions</u>	<u>Water schemes</u>	<u>Total</u>
As at 1 April 2016	603,904	219,770	-	823,674
Revaluation surplus	<u>76,862</u>	-	-	<u>76,862</u>
<b>As at 31 March 2017</b>	<b>680,766</b>	<b>219,770</b>	-	<b>900,536</b>
<u>Depreciation</u> 2017				
As at 1 April 2016	-	-	-	-
Charge for the year	-	<u>15,406</u>	-	<u>15,406</u>
<b>As at 31 March 2017</b>	-	<b>15,406</b>	-	<b>15,406</b>
As at 1 April 2015	108,595	59,981	6,658	175,234
Depreciation released on revaluation	-	(52,525)	(6,658)	(59,183)
Revaluation surplus	<u>495,309</u>	<u>212,314</u>	-	<u>707,623</u>
<b>As at 31 March 2016</b>	<b>603,904</b>	<b>219,770</b>	-	<b>823,674</b>
<u>Depreciation</u> 2016				
As at 1 April 2015	-	52,525	6,658	59,183
Depreciation released on revaluation	-	<u>(52,525)</u>	<u>(6,658)</u>	<u>(59,183)</u>
<b>As at 31 March 2016</b>	-	-	-	-
<b>Net book value</b>				
<b>As at 31 March 2017</b>	<b>680,766</b>	<b>204,364</b>	-	<b>885,130</b>
As at 31 March 2016	<u>603,904</u>	<u>219,770</u>	-	<u>823,674</u>

Freehold land and developments were revalued as at 31 March 2017 on behalf of Directors by independent valuer, Dick Mupambireyi, a Biological Asset Surveyor of PRO-VAL (Pvt) Limited of Zimbabwe, who have experience in the location and category of Biological assets and land and are being used by a number of companies within the tea industry in Malawi. The independent valuers provide the fair values of the Company's Biological assets and land with sufficient regularity.

The fair value measurement for all of the Land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of land and buildings, as well as significant unobservable inputs used

Valuation method adopted	Observable inputs	Unobservable input
Depreciated replacement cost	Building cost information sourced from quantity surveyors	Estimated depreciation rates based on location and obsolescence

The company's land and buildings have been used as security for loan and facilities taken by Naming'omba Tea Estates Limited with FMB Bank Limited. The facilities include:

- (a) Overdraft facility up to MK50,000,000
- (b) Overdraft facility up to \$1,150,000
- (c) A drawdown loan of up to \$1,250,000.

**MAFISI TEA ESTATES LIMITED**

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9.	<b>Biological assets</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
	<i>See accounting policy note 3.4</i>		
	At 1 April 2016	1,071,706	630,125
	Fair value adjustment	<u>1,156,446</u>	<u>441,581</u>
	Balance at year end	<b><u>2,228,152</u></b>	<b><u>1,071,706</u></b>
	<b>Fair Value Movement in the year</b>		
	Analysed by:		
	Tea	1,027,841	388,669
	Macadamia	118,333	44,282
	Timber	<u>10,272</u>	<u>8,630</u>
		<b><u>1,156,446</u></b>	<b><u>441,581</u></b>
	Biological assets were revalued as at 31 March 2017 on behalf of the Directors by independent valuer, Dick Mupambireyi a Member of The Real Estate Institute of Zimbabwe with 16 years post qualification experience on the valuation of Agricultural Properties in Africa, Registered Valuer in Zimbabwe, a holder of B. SC Agricultural (Hons) University of Zimbabwe, M.SC in Rural and Urban Planning University of Zimbabwe and Licentiate Member of The Real Estate Institute of Zimbabwe.		
10.	<b>Related party balances</b>		
	<i>See accounting policy note 3.5</i>		
	<b>Related party transactions</b>		
	During the year, the following transactions were carried out with related parties at an arm's length basis.		
	<b>Amount due from related party</b>		
	Naming'omba Tea Estates Limited	<u>164,646</u>	<u>166,361</u>
	<b>Due to related party</b>		
	Naming'omba Tea Estates Limited		
	Payments of taxes	<u>---</u>	<u>1,670</u>
	All transactions with related parties are done at an arm's length basis		
11.	<b>Provisions relate to audit fee provision for the year</b>	<b><u>1,748</u></b>	<b><u>---</u></b>
	<i>See accounting policy note 5.6</i>		
12.	<b>Share capital</b>		
	<i>See accounting policy note 3.7</i>		
	<b>Authorised:</b>		
	1,500,000 ordinary shares of K1 each	<u>1,500</u>	<u>1,500</u>
	<b>Issued and fully paid:</b>		
	1,500,000 ordinary shares of K1 each	<u>1,500</u>	<u>1,500</u>
	There were no shares which remained unissued.		
	The holders of ordinary share capital are entitled to dividend as declared in the annual general meeting.		
12.1	<b>Capital reserve</b>	<b><u>20,933</u></b>	<b><u>20,933</u></b>
	Capital reserve arose following injection of additional capital by the shareholders to settle liabilities directly with creditors. It is not available for distribution.		

12.2

**Property revaluation reserve**

671,249

617,446

*See accounting policy note 3.3*

Property revaluation reserve represents the cumulative increases in value of property arising from revaluation of property from time to time. It is not available for distribution to shareholders.

MAFISI TEA ESTATES LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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		<u>2017</u>	<u>2016</u>
12.3	<b>Biological assets revaluation reserve</b>	<u>1,545,344</u>	<u>735,832</u>
	<i>See accounting policy note 3.4</i>		
	Biological assets revaluation reserve represents the cumulative increases in fair value of the biological assets following revaluations of the biological assets to their fair value less deferred income tax. The revaluation reserve is not available for distribution to the shareholders.		
13.	<b>Other income</b>		
	<i>See accounting policy note 3.2</i>		
	Estate rent	<u>1,502</u>	<u>1,502</u>
14.	<b>Administration expenses</b>		
	Audit remuneration	1,748	-
	Depreciation	15,406	-
	Consultancy charges	<u>614</u>	<u>-</u>
		<u>17,768</u>	<u>-</u>
15.	<b>Tax expenses</b>		
	<i>See accounting policy note 3.4</i>		
15.1	<b>Income statement charge</b>		
	Current income tax	-	448
	Deferred tax	<u>346,934</u>	<u>158,381</u>
		<u>346,934</u>	<u>158,829</u>
	<b>Income tax reconciliation</b>		
	Profit before taxation	1,140,180	443,083
	Income tax at 30% (2016: 30%)	<u>(342,054)</u>	<u>(132,925)</u>
	Reversal of deferred tax	<u>(4,880)</u>	<u>(25,904)</u>
	Taxation in the statement of profit/loss	<u>(346,934)</u>	<u>(158,829)</u>
15.2	<b>Deferred income tax</b>		
		<u>2017</u>	<u>2016</u>
		<u>Assets</u> <u>Liabilities</u>	<u>Assets</u> <u>Liabilities</u>
		<u>Net</u>	<u>Net</u>
	Fair value adjustment on biological assets	-   479,408	-   132,474
	Property, Plant & Equipment	-   459,169	-   436,110
		<u>-   938,577</u>	<u>-   568,584</u>

The movement in deferred tax is analysed as follows:-

	Balance at 1 September 2016	Recognised in profit or loss	Recognised in comprehensive income	Balance at 31 March 2017
Fair value adjustment on biological assets	132,474	346,934	-	479,408
Property, plant and equipment	436,110	-	23,059	459,169
	<u>568,584</u>	<u>346,934</u>	<u>23,059</u>	<u>938,577</u>

**MAFISI TEA ESTATES LIMITED****NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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*In thousands of Malawi Kwacha*

<b>15.3</b>	<b>Tax liability</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
	Balance at 1 April 2016	<b>1,537</b>	1,573
	Paid during the year	<b>(932)</b>	(484)
	Current year charge	<b>—</b>	<b><u>448</u></b>
		<b><u>605</u></b>	<b><u>1,537</u></b>

**16 Contingent liabilities**

The company has an ESCROW arrangement with NBS Bank Limited whereby any liabilities that are discovered subsequent to take over and which were not disclosed to the new shareholders would be paid from the ESCROW account. At the reporting period the company had no contingent liabilities which would be settled under the ESCROW arrangement.

**17 Exchange and inflation rates**

The average of the year end selling rates of major foreign currencies affecting the performance of the Company are stated below, together with the increase in the National Consumer Price Index, which represents an official measure of inflation.

## Exchange rates

Kwacha/GBP	<b>921</b>	1,032
Kwacha/Rand	<b>55</b>	44
Kwacha/US Dollar	<b>735</b>	683
Inflation rate %	<b>16.5%</b>	22.1%

At the time of approval of these financial statements, the exchange rates had moved to:

Kwacha/GBP	<b>955</b>
Kwacha/Rand	<b>57</b>
Kwacha/US Dollar	<b>734.20</b>

**18 Capital commitments**

There were no capital commitments as at 31 March 2017.

**19 Subsequent events**

Subsequent to the reporting date, no significant events have occurred necessitating adjustments to our disclosures in the financial statements.